LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
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FISCAL IMPACT STATEMENT

LS 6843 | **NOTE PREPARED:** Jan 27, 2003
BILL NUMBER: HB 1694 | **BILL AMENDED:**

SUBJECT: Long Term Care Insurance Tax Deduction.

FIRST AUTHOR: Rep. Ripley | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: The bill provides that a taxpayer who pays premiums for a long-term care insurance policy for a parent, grandparent, stepparent, or step grandparent of the taxpayer or the taxpayer's spouse may, in calculating adjusted gross income, deduct an amount equal to the portion of the premiums paid in the taxable year. The bill removes a provision restricting the tax deduction to premiums paid for insurance policies that are "qualified" for purposes of the Indiana Long-Term Care Program.

Effective Date: January 1, 2004.

Explanation of State Expenditures: The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate the change to the long term care (LTC) insurance premium deduction. These expenses presumably could be absorbed given the DOR's existing budget and resources.

Explanation of State Revenues: The bill would reduce state Adjusted Gross Income (AGI) Tax liabilities of individual taxpayers who pay premiums for LTC insurance coverage. The revenue loss due to this bill could potentially total $7.3 M to $10.8 M in FY 2004. Assuming little or no annual growth in the average premium, this total could still increase by 18% annually based on recent annual trends in policies sold.

The bill expands the current law deduction for LTC insurance premiums paid by individual taxpayers. Under current statute, the deduction is limited to premiums paid on Indiana Partnership LTC insurance policies for a taxpayer or taxpayer's spouse. The bill extends the deduction to all LTC insurance policies, and to the LTC portion of a life insurance policy or annuity. The bill also extends the deduction to premiums paid by a taxpayer for the parents, grandparents, stepparent, or step grandparents of the taxpayer or taxpayer's spouse.

Background Information: The estimated fiscal impact is based on reported Indiana market penetration rates for LTC insurance ranging from 10% to 14% and the reported average premium of about $1,806 per year.

The market penetration rate is the ratio of total policies sold to the population aged 65 and older. Using Census 2000 population totals for Indiana, it is estimated that total LTC insurance policies in Indiana ranged from about 75,300 to 105,400 in 2000. Annual trends in national LTC policy totals suggest that policies could increase by 18% annually. Thus, it is estimated that the number of LTC policies in Indiana could total about 146,000 to 204,300 by 2004. In 2002, Indiana Partnership policies totaled 19,870. Assuming similar growth rates, it is estimated that Indiana Partnership policies could potentially total about 38,600 in 2004. As a result, the additional LTC insurance policies with deductible premiums is estimated to total about 118,300 to 176,700 in 2004. Assuming an average premium of $1,806, additional deductible LTC insurance premiums are estimated to range from $213.6 M to $319.1 M in tax year 2004. This would result in a revenue loss ranging from about $7.3 M to $10.8 M. Since the change in the deduction is effective beginning in tax year 2004, the fiscal impact would begin in FY 2005. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of this revenue is deposited in the Property Tax Replacement Fund.

Medicaid Impact: The bill could potentially reduce future Medicaid expenses for individuals in nursing homes, to the extent that the expansion of the deduction encourages more people to purchase LTC insurance coverage. The extent of this potential offset is indeterminable.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the proposed change in the LTC insurance premium deduction would serve to decrease taxable income, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience an indeterminable decrease in revenue from these taxes.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with a local option income tax.

Information Sources: *Long-Term Care Insurance in 1997-1998*, Health Insurance Institute of America (HIAA). *Long-Term Care Insurance in 1998-1999*, HIAA. *Tax Deductibility of Long-Term Care Insurance Premiums*, HIAA, March 2000. *Long-Term Care for the Elderly with Disabilities*, Milbank Memorial Fund, August 2000. Indiana Long-Term Care Insurance Program statistical summaries. Mary Ann Hack, Family and Social Services Administration, (317) 232-1034.

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